"Priorities and Budget Challenges in a Nation at War"

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G. William Hoagland[1]

"'The time has come,' the Walrus said,
'To talk of many things:
Of shoes – and ships – and sealing wax –
Of cabbages – and kings –
And why the sea is boiling hot – and
Whether pigs have wings.'"

Through the Looking-Glass and
What Alice Found There.
Lewis Carroll

Thank you for the invitation to speak to your symposium. Like the Walrus, there is much to talk about but precious little time. Hopefully what I have to say will be pertinent to the marquee headline of the symposium – "Priorities and Budget Challenges in a Nation at War".

I also would like to thank you – and I know I speak for many Capitol Hill budget committee staffers – for this invitation to be here. For you see, I know that your last speaker will be entertaining but also blunt in saying that the Budget Committees are irrelevant today, all cost scoring estimates are irrelevant, the Congressional budget process is irrelevant. So thank you for inviting an irrelevant speaker to your conference, but also feel free to get up and wander around and do whatever you do when irrelevant speakers come before you.

My friend will also suggest that the Congressional budget process is a three-ring circus – no, I argue, it is the <u>three</u> branches of government at work – with all its frustrations, foibles, failings, and inefficiencies – but pretty much what the founding fathers envisioned when they laid out this republican (spelled with a small ›r=) form of government.

I will cover two topics following the symposium=s focus:

1. Budgeting in a time of war; and
2. Budgeting in a time of change.

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[1]Staff Director, Senate Committee on the Budget, U.S. Senate, Washington, D.C. The views and opinions are those of the author and do not necessarily reflect the views and opinions of the Ranking Member, the Committee=s members, or staff.

Budgeting in a time of war.

In America, as William Faulkner wrote, "The past isn=t dead. It isn=t even the past." World history unfortunately is one of wars and conflicts.

Wars are transforming dramas. And wars themselves have been transformed by rapid advances in technology. Further, history is not entirely a random set of events. The decisions made in war, as well as the decisions rejected in war, have been central to the development of this country and the growth of central government over its entire history. Like a ratchet that works only one way, wars lead to bigger government, a legacy that lives on long after the hostilities have ended and the peace treaties have been signed.

In their 1994 book *Debt and Taxes,* Makin and Ornstein state that: "War has been the central factor in determining fiscal policy throughout history."[2] It is hard to argue with them, for after all this country was forged in the heat of a Revolutionary War that framed a republic and a governing philosophy to follow. Indeed, it was the cost of the Revolutionary War that gave the first Secretary of the Treasury, Alexander Hamilton, the reason for incurring national debt and levying taxes, to the chagrin of Thomsas Jefferson who quickly undid such policies when he became President.

But Mr. Jefferson=s fiscal stance was undone by the expenses of the War of 1812, and new debt and internal taxes reemerged. The revenues raised to fund that War continued on after it in the form of surpluses that provided non-defense funding for public improvement projects.

It was our Civil War, however, that I believe was the most transforming of all in our country=s history. In his classic book last year *April 1865,* Jay Winik writes: "virtually unique to all of human history**,** Americans had a Constitution and a country before they had a nation."[3] The final events of 1865 - April 1865 - in the end, united a nation and wrenched the political and economic institutions from their established patterns and altered forever the role of the federal government in relation to the states and to the economy. Once again, the high tariffs and taxes to fund the war continued on as surpluses afterwards leading to an expansion of the federal government beyond the levels reached in antebellum America.

In the last century, World War I dramatically expanded deficits and debt. Taxes were increased sharply and a newly implemented individual and corporate income tax became the primary revenue source not only for the war but also for further expansion of the role of government in agriculture and other regulatory functions.

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[2] *Debt and Taxes,* John H. Makin and Norman Ornstein, 1994 American Enterprise Institute, published by Times Books, Division of Random House, Inc., p. 41.

[3] *April1865,* Jay Winik. HarperCollins, p. 373.

But now listen up budgeteers – it was the startling upswing in national expenditures during and following WW I that lent force to the demand for a reformed federal accounting system and the result – the Budget and Accounting Act of 1921 that brought to reality a national budget system. In other words, it was WW I that led to the Bureau of the Budget, obviously the precursor for today=s OMB, wherein the executive budgeting process we have today was launched.

On May 10, 1940, Hitler invaded Holland, Luxembourg, Belgium, and France; and America=s involvement in the greatest armed conflict ever was preordained even before the attack on Pearl Harbor. There are no comparisons to be made between the economic and budget impact of WW II and all the other conflicts in America=s history. And in Winston Churchill=s words, "anyone who embarks on that strange voyage of *war* can *never* measure the tides and hurricanes he will encounter."[4]

From June 1940 to December 1943, expenditures in support, preparation and for the war aggregated more than all the money spent by the national government from the inauguration of George Washington to the attack on Pearl Harbor. By 1945, over 90 percent of all federal outlays were devoted to national security, 37.5 percent of our GDP.

While the horrific attacks of last September 11 have been equated to the attack on Pearl Harbor in terms of their impact on the American psyche, no similar comparison can yet be made between the fiscal policy decisions flowing from the two events. WW II brought on real sacrifices – price controls, rationing, directed private production, and forced personal savings. Director Daniels recently observed that President Roosevelt reduced non-defense spending during this time.[5] I estimate conservatively a 38 percent reduction between 1940 and 1944.

Director Daniels did not point out, however, that revenues increased by over 200 percent during the same time period, as a result of the Revenue Act of 1942, the Current Tax Payment Act of 1943 that created tax withholding, the Revenue Act of 1943, and the Individual Income Tax Act of 1944. Yet despite both significant increases in revenues and some reduction in non-defense spending, deficits exploded. For the period 1941-1945, the federal budget deficit averaged nearly 20 percent of GDP, and debt held by the public grew five fold.

For the real budget history buffs, early in 1941 Congress set up a Joint Committee on the Reduction of Nonessential Federal Expenditures.[6] The purpose of this committee was to recommend reductions in non-defense spending to offset the increases in defense spending that were considered as

[4] *My Early Life: 1874-1904* by Winston Churchill, William Manchester (Introduction).

[5] AA Wartime Budget, @ Mitchell E. Daniels, Jr. *Washington Post*, Feb. 3, 2002. p. B07.

[6] *Introduction to American Government*, Frederic A. Ogg and P. Orman Ray, D.Appleton-Century Company, 1945, p. 494.

imperative. Sound familiar?

But listen to this, Senator Byrd (Harry Flood Byrd of Virginia, a Democrat who chaired the committee) recommended upwards of $2 billion in cuts in 1942 or 15 percent of all non-defense, non-interest expenditures that year **B** that would be equivalent in today=s terms to nearly $230 billion! Maybe not surprising, from a 1945 textbook entitled *Introduction to Government*:

> "The difficulty was, however, that no one could figure out such saving without cutting deeply into great undertakings like agricultural aid, public works, pensions, and social security; and to every proposal of the kind sturdy opposition was certain to be offered by vast numbers of people with interests at stake. The upshot has been that, while some significant cuts have been made, the economies thus far affected constitute hardly more than a drop in the bucket. The effort continues; but too much must not be expected from it. The government itself, indeed, still hopes to be able to lead the nation to victory abroad without material sacrifice of hard-won social and economic gains at home."[7]

Clearly, WW II was another notch on the ratchet, that when combined with the multitude of federal programs launched prior to the War to combat the Great Depression of the 1930's, the maintenance of a follow-on "Cold War" defense posture including domestic civil defense spending, and the dramatic increases in revenues, all set the stage for growth of non-defense spending programs continuing to this day.

The Korean Conflict between 1950 and 1953 saw more tax legislation to fund that war including the Excess Profits Tax of 1950 and the Revenue Act of 1951 – revenues grew by 30 percent over this period. President Truman was also successful in reducing non-defense expenditures by nearly 44 percent. An accord was also reached between the Treasury and the Federal Reserve during this conflict to allow yields on Treasury securities to be market determined, along with the widespread wage and price controls. The results were striking compared to previous wars, budget deficits averaged only 0.3 percent over this period and inflation remained under control.

The extremely controversial Vietnam Conflict was never a declared war officially, though I have a couple of high school classmates whose names are on a wall over on the Mall whose families would disagree with the non-war designation. Nonetheless, in part because of the domestic controversy, fiscal policy was never framed in terms of the events of this conflict. Indeed, the first tax act of the Vietnam era was a major tax reduction, the Revenue Act of 1964 advanced by President Kennedy in 1961 to stimulate the economy. The similarity of enacting a tax cut just prior to the build up in defense spending in 1964 is of course purely a coincidence to the enactment last year of the Economic Growth and Tax Relief Reconciliation Act of 2001 prior to the September 11 attacks. But history can be a guide.

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[7] Ibid. p.494

Late in the Vietnam Conflict, a temporary 10 percent tax surcharge was imposed along with the Tax Reform Act of 1969, which together had the effect of increasing taxes 0.2 percent of GDP. But in actuality, over the period 1964 to 1973, taxes as a share of the economy remained unchanged. And increasing defense expenditures through 1969 were more than matched with increasing Great Society spending programs – the infamous "guns and butter" fiscal policy – helping set the stage for deficit spending for the 30 years to follow. More importantly, this period of new spending, particularly the new "backdoor" spending as it was referred to then and we call mandatory spending today, I argue was in part, responsible for the enactment of the Congressional Budget and Impoundment Control Act of 1974, our bible today.

Finally the 1990 - 1991 Operation Desert Storm, Desert Shield Operation was unique in both funding and budgeting. As I and some in this room were sequestered away in September of 1990 at Andrews Air Force Base with Senators, Congressmen, and White House officials, searching for a solution to extending the expiring Gramm-Rudman-Hollings II law, the winds of war were swirling in the deserts of Iraq and Kuwait.

As final agreements were being reached in the Omnibus Budget Reconciliation Act of 1990, negotiators confirmed that any enactment of a declaration of war would be outside the budget discipline of the new spending caps or pay-go rules. But what if no declaration of war was adopted? Then exemptions would be provided for designated "emergency requirements". The initial costs of the Gulf War qualified as meeting this new emergency requirement – and appropriations for the campaign in the Gulf exceeded $58 billion in 1991 and 1992. But unique to the funding of this war were the financial contributions of our allies that totaled $48 billion, thus reducing not the U.S. fiscal deficit, but the U.S. current account deficit.

The definition of what would qualify as an "emergency" measure was loosely defined by the OMB Director Richard Darman, later codified in budget resolutions, and remains with us today as: (1) a necessary expenditure, (2) sudden, (3) urgent, (4) unforseen, and (5) not permanent.[8] Since it was first brought into practice in 1991, the emergency clause has been used to fund $240 billion in "emergencies", an average then of almost $20 billion for each year the "emergency" designation has been operative. Roughly three-quarters of this emergency spending has been for Department of Defense programs.

Now today, we are engaged in a "war on terrorism". Military and defense strategists long before September 11 understood that the "two major-theater war" construct left over from the Cold War would leave us over prepared for two specific conflicts but under prepared for unexpected emergencies at home and abroad. The wars of the last three centuries, even the recent Gulf War, are no longer models for the type of threats that now confront civilized societies in the 21st century. It is the ultimate irony of our time, that the struggles waged in the conflicts I have outlined over the centuries, have made America the envy of

[8] *Report on the Costs of Domestic and International Emergencies and on the Threats Posed by the Kuwaiti Oil Fires, as required by P.L. 102-55.* Executive Office of the President, OMB. June 1991.

the world today -- an open, free, innovative and prosperous society B and those same achievements now create our vulnerabilities.

An open and free society, modern rapid communications, integrated energy- water- transportation systems, large urban centers of commerce and finance, free travel and limited immigration restrictions, these and many other facets of modern society, have helped to spread the principles of freedom throughout the planet in the form of a global economy. Protecting these achievements, both home and abroad, has also forced the U.S. to become the policeman of the world – much like the role the British navy played in the 19th century keeping the oceans' trade routes safe from the Barbary pirates off the coast of North Africa. The same open free society that creates opportunity for so many also has created vulnerabilities to be exploited by modern day U.S.-hating pirates both at sea, in the skies, and at our borders.

For defense and fiscal policy experts, the cost of this newest "war" is not in the traditional airplanes, tanks, ground troops and bombs – though that is a part of the cost – but the real costs are non-traditional, non-military expenditures. Today, new threats are on a continuum starting with nuclear weapons and running through chemical, radiological, biological, and cyber-weapons. A recent article in *Foreign Affairs* states that on this continuum, nonproliferation and control is comparatively robust at the nuclear-end but enormously difficult and almost nonexistent at the cyber-end.[9]

The real national security threats today then, are not armies marching across our borders, but a new battlefield of miniature nuclear weapons in a student=s back-pack, envelopes mailed and laced with deadly biological agents, or chemical agents released into our cities= water systems, or contaminants tainting our food supply, or aerosolized smallpox virus released in a crowded shopping mall. Since 1976, some 30 serious new infectious agents have been identified, like Ebola, and yet while we have effective countermeasures for two pathogens (smallpox virus and anthrax bacillus) there are no vaccines for these other pathogens and there has been only one new class of antibiotics discovered in the last three decades.

CBO recently estimated that the cost of the war in and around Afghanistan would be about $10 billion.[10] Since September 11, assuming the President=s latest supplemental request, $67 billion has been allocated to this war effort. CBO=s estimate of the traditional war-fighting cost then represents only 15 percent of the total. (Table attached.)

Where will the rest be spent? Another $18 billion has been allocated to the Department of Defense over and above the costs of fighting the war in Afghanistan. If these additional resources are being allocated for defense systems that have no role on the new non-conventional battlefield, then these expenditures should be questioned by the Congress. But $36 billion (over 53 percent) will be provided for "Homeland Security" and related recovery costs from the attacks of last September. I do not question

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[9] Christopher F. Chyba, Toward Biological Security, *Foreign Affairs*, May/June 2002, p.123.

[10] Congressional Budget Office, letter to Senator Pete V. Domenici, April 10, 2002.

the monies that have been spent or requested, but one would think that this new non-conventional battlefield would be the focus of our public expenditures and that there would be a significant increase in research expenditures to combat these new threats. Not exactly so, and this is the challenge for the future. I estimate that less than $500 million has been allocated to government health research agencies to develop countermeasures for these deadly new pathogens.

Today, unlike previous wars, what has been traditionally defined as non-defense spending authority will increase faster this year than defense spending authority,13.2 percent versus 9.0 percent. The challenge is to be certain these non-defense monies are truly being spent to fight the new-threats, not simply continue old programs with limited deterrent and safeguarding effects. (Table attached.)

Budgeting at a Time of Change.

So how should we think about budgeting in a time of change?

Back in December 1982, just a couple of days before the Christmas holiday, the then Majority Leader, Howard Baker, a person I came to know and respect, gave a speech on the Senate floor. I=ve kept that speech in my desk drawer these many years and refer to it from time to time.[11] The Leader confessed his moments of frustration with his colleagues' free and open debate. This diversity of opinion and debate he noted was at once a source of strength and an object of puzzlement or disparagement on the part of the Senate=s critics.

Senator Baker went on to quote John Kennedy who as President was fond of remarking that the Clays, Calhouns, and Websters of the 19th century had the luxury of devoting a whole generation or more to debating and refining the few great controversies at hand – issues of slavery, tariffs, and westward expansion. But the present day, and remember this was 1982, could not have been more different, Baker observed. The issues were almost too numerous to count and they defied simple categorization. What was true then is even more so today.

At the time the Budget Act was adopted in 1974, the two technological marvels in the Senate were the hand-held calculator and the digital watch. Senator Baker, Ambassador Baker today, left the Senate at the end of 1984. Shortly thereafter, in large part because of his doing, TV came to the Senate; and 10 years after that in 1995, the Senate Web site, senate.gov, was launched. Today, every Congressman and Senator has been issued a PDA – a Blackberry – with instant E-Mail and personal communications. Exponential change has manifested itself in these last 20 years not just in government, but also in our universities, in the business world, and in everyday lives of people.

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[11]Senator Howard Baker, AThe Great Anchor of Government, the U.S. Senate@, *Congressional Record* ***B*** *Senate*, December 23, 1982; p. S.16114.

So how do officials budget with such rapid changes all around them? The easy answer, the cop-out, is to say you can't, so why even try? The critics of the congressional budget process today point to budgets outdated as soon as they are adopted, missed deadlines, and failure to live up to the guidelines even when they are set. Critics point to large changes in estimates for the future and uncertainties in economic forecasts; and now, a war with an unseen enemy and no clear battle lines adds more uncertainty.

I have wrestled with this question as I reviewed the history of wars and fiscal policy. I have looked for answers to these critics of the current congressional budget process. There is no simple answer. But I put forth in closing some thoughts focused primarily on the congressional process:

1. First, simplify, make budgeting more transparent, and be willing to accept risk. When I first began work with CBO at its inception, Director Rivlin used to give a talk about the then "new" budget process on Capitol Hill. She liked to say that every muscle, every nerve, every blood vessel of an elected official drove them toward putting off decisions. She would say that the new budget process was designed to force elected officials to face up to the consequences of their decisions – good, bad or indifferent.

   In the words of that Nike commercial – just do it! Make decisions, act. It is the most basic function of a government to set some goals and guidelines for itself. Budgeting is governing. Changes and uncertainties about the future will always be; and if one waits for the perfect set of economics, the perfect political environment, the perfect set of facts (no matter how great your staff), human nature being what it is will win out and delays will be inevitable. In times of uncertainties, making decisions carries risk, both political and substantive. These risks cannot be ignored, but they can be factored into the decision process.

   Today, rapid changes and uncertainties in world events and economics work in the direction of reinforcing this human characteristic and encourage budget decisions to be postponed. But changes to congressional budget process have also worked against it.

   Evolution of the process over the years has made it easier for members to postpone the adoption of a budget in a timely manner such as eliminating the second budget resolution, inserting numerous reserve funds and trigger mechanisms into the process – hedging one's political bets – and setting targets that first sound attractive but then become impossible to achieve, further weakening the credibility of the process and reinforcing human nature – why make a decision now if it is only going to be undone later when the facts change? Further, just as a reference point, the first budget resolution for FY 1976 was one page, 13 lines, and covered just one year. The recent Senate reported resolution for FY 2003 is 86 pages, 2,150 lines, and covers 10 years. Is it any wonder that members feel overwhelmed and frustrated by the process?

   My first recommendation then, for budgeting in a time of change may sound counterintuitive; but it is to simplify, simplify, and simplify. Go back to the basics and make the decisions more transparent. Members who do not understand the process cannot be expected to respect it or make decisions based on it. Senator Stevens in 1993 was bold enough to state: "There is a sense of frustration that the budget rules are there to be disobeyed by those who understand them."

Allow it to be flexible, but not so much so as to make it worthless, as the last presenter will suggest. The bridge stands strong because the steel used to build the bridge bends.

2. Second, wars by their very nature are emergencies; and until wars are eliminated forever, budgeting for them can only be done on an emergency basis. In times of war, the decision making power does shift to the Commander-in-Chief; and Congress plays a different role in opening up the purse to the Executive in these extraordinary times.

In these times of war, using the only executive and congressional budget tool we have – the emergency funding provision – is appropriate. Alternatives such as legislated set-asides, contingency funds, rainy day funds, or a permanent and indefinite appropriations to the President for emergencies, have been debated over the years. Even recent proposals for pooling risks at the federal level into new insurance programs – such as natural disaster and terrorism insurance – some think could avoid future emergency funding needs. But today, I believe the current emergency funding clause remains the least offensive on the list of not very satisfying alternatives.

The bigger role for Congress is budgeting for our national defense on an on-going basis for the times other than hostilities. In terms of raw military power, the U.S. is in a class all by itself; and in fact, defense expenditures are coming very close to the level of defense spending by the rest of the countries of the whole world put together. Even with this level of spending and increased defense spending since the attacks, it is still not clear to me that Americans feel any more secure today than they did last fall.

What is the price of an insurance policy to prevent wars from occurring in the future? What is the price of deterring threats? Since September 11, the risk premium for that insurance went up – the ratchet has been notched up. Roughly speaking, that risk premium is the $18 billion appropriated for the Department of Defense since September 11 over and above the direct $10 billion marginal costs of the war in Afghanistan. Here Congress does have a role to be sure monies are being used in a way that will buy good insurance, and not gold-plating new defense systems with questionable deterrence value.

But Congress sometimes imposes its own parochial interests and takes advantage of the situation. Senator Harry S. Truman launched a special Senate Committee to Investigate the National Defense Program in early 1941 to investigate waste and corruption in defense contracting at that time, and in so doing, also advanced his career to become President. Concerns even today about the spending on this war have led some I know to convert the famous saying that "war is hell" into "war is an opportunity to spend." Tough budgeting, even in times of heightened patriotism, remains as important as ever. It is necessary to separate out the wheat from the chaff.

3. Third, while protecting national security intelligence, keep the lines of communication open in times of change. The current war on terrorism is unique, but will not, unfortunately, be atypical of future conflicts. As I have pointed out, spending for non-defense is growing at a faster rate than defense spending this year.

And therein lies the current spat between Congress and the Administration. While the Commander-in-Chief has ultimate control over defense spending in a time of war, Congress takes special interest in non-defense spending for borders, transportation security, public health, National Pharmaceutical Stockpile, state and local early warning systems, and other such programs. Is it any surprise then that Governor Ridge and his Office of Homeland Security, while correct constitutionally in not appearing before Congress, cannot long be divorced from the purse strings funding those non-defense activities?

4. Fourth, budget on a multi-year basis; but when enacting legislation that has a multi-year impact, adjust for the budget's extreme sensitivities to long-term economic forecasts.

This is the most difficult recommendation for me to present. All forecasters and budgeteers should have been humbled by last year=s swing in surplus estimates. Frankly, we do not have a good track record on predicting the budget over a 10-year period; we don't even have a track. We have not had enough of a history to be able to judge the accuracy of 10-year projections, and the variables involved in such estimates are too numerous.

Before the economic slow-down began in March last year, CBO's annual budget and economic report estimated that if a mild recession were to occur, the then 10-year baseline surplus of $5.6 trillion would be reduced by $133 billion or 2.4 per cent. Policy makers based their decision to enact a tax cut, in part, on these estimates that even with a recession there would continue to be a sizeable surplus over the decade. In its most recent annual report, the economic and technical changes – not legislative changes – are now estimated to have reduced last year's $5.6 trillion surplus by upwards of $1.5 trillion or 27 percent, 10 times last year's estimate of the impact of a mild recession.

I am not criticizing CBO or its fine staff. Indeed, CBO has historically shown ranges around their estimates and made clear to all decision makers of the risks of basing policy decisions on their long-term projections. I am certain, however, of one thing, if we could fast forward 10 years, and if there were no new legislation over this time span, the surplus over this period would not be $2.3 trillion as is being projected today, it would be something much different – maybe larger, maybe smaller. The one economic variable that makes this statement true for long-projections, productivity, is the most difficult to measure and predict.

Therefore, one could make a legitimate argument that Congress should refrain from multi-year budgeting, and particularly legislation that has a multi-year impact. Certainly, those who now argue that Congress based last year's tax cuts on "faulty" baseline estimates repeat this argument regularly. I think all could agree, also, that during times of heightened uncertainties, during times of war, the focus of budgeting should be on the short-term crisis, not longer-term potential crises.

Historically, during most of the country's past, budgeting has been done over a one-year, or at best five-year, horizon. Ten-year or multi-year budgeting is a relatively new phenomenon in the Congress.

But we all are aware of the aging profile in this country. That fact is unequivocal. While that fact alone does not justify multi-year budgets, when it is combined with the fact that federal entitlement legislation has been adopted over the years which makes commitments to future resources, whether those benefits be public pensions or medical benefits, then a strong case can be made for multi-year budgets.

Since current and past Congresses and Administrations have locked in commitments on federal resources that will constrain future Congresses and Administrations, I believe it is a *fait accompli* that multi-year budgeting is required even in a time of heightened near-term uncertainty. The challenge to all now lies in crafting multi-year budgets that recognize these future commitments, while weighting them against the uncertainties of all economic forecasts. The result is probably some balance and weighting of legislative decisions more toward the near term and less toward the longer-term; and, surely inconsistent with my goal of simplification, consideration of intergenerational pay-go rules for multi-year legislation.

Having said this, however, I should note that over the next 10 years, the growth in mandatory spending is not driven so much by the numbers of participants in these programs, which accounts for only about 18 percent of the cost increases. Nearly 80 percent of the growth is due to factors other than increases in caseload. It is due to increases in general inflation (e.g. cost-of-living adjustments) and rapid increases in health care inflation and the resulting automatic reimbursement rate increases. Therefore, while critics of last year's tax cuts suggest they should be either put on hold or rolled back because of their impact in some distant future budget, these same critics might consider whether there is any inconsistency in their argument if they are also calling for the creation of new expensive mandatory spending programs for the future, such as farm subsidies and new Medicare prescription drug benefits.

To conclude: in the end, nothing endures but change. Change is inevitable. During periods of war and during periods of uncertainty in the economic outlook, budgeting is obviously a challenge. Further, a serious challenge lies for the American public and elected officials not to let the events of last fall fade from public memory and lull us back into business as usual. Even worse would be to use the events of last fall as an excuse to ignore the longer term challenges of an aging planet.

This is hard. This is risky. It cannot be business as usual, and it cannot be politics as usual. It is a challenge to all Americans and their elected officials and a challenge to those of us who try to advise. But simply because it has been made even more difficult is no excuse not to accept the challenge. I repeat myself, budgeting is governing; and it must go on both in the good times and the bad. This is the challenge in a time of change.

TABLE 1
TERRORIST SUPPLEMENTAL FUNDING BY PURPOSE
(in millions of dollars)

	2001 Emergency Response Funding	2002 Emergency Response Funding	2002 President's Supplemental Request	TOTAL
War on Terrorism	12,893	2,909	15,632	31,434
Defense	11,576	2,840	14,023	28,439
State/International Assistance Prograı	1,317	69	1,609	2,995
Homeland Security	2,549	8,086	5,284	15,919
Recovery/Other	4,558	9,005	6,206	19,769
TOTAL	20,000	20,000	27,122	67,122

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 2
COMPARISON OF DISCRETIONARY RESOURCES IN CBO'S REESTIMATE OF THE PRESIDENT'S FY 2003 BUDGET

(Budget authority and obligation limitations, in billions of dollars)

	Actual 2001	2002*	2003 CBO Reest	Difference	2002-2003 % Change
TOTAL BA	664	739	759	20	2.8%
Less Defense	332	362	393	31	8.6%
Less International Affairs	24	25	25	**	-0.6%
Less Homeland Security	12	25	25	**	0.2%
TOTAL, Other Domestic Discretionary BA	**296**	**326**	**316**	**-11**	**-3.3%**
Plus transportation obligation limitations	38	41	32	-9	-21.2%
TOTAL, Other Domestic Discretionary Budget Resources	**335**	**368**	**348**	**-19**	**-5.3%**

Source: Senate Budget Committee Republican Staff; CBO

Note: Details may not add to totals due to rounding.

* The 2002 level includes the effects of the $20 billion emergency response fund, as well as the President's $27.1 billion request (as estimated by CBO) for the 2002 supplemental that was submitted on March 20, 2002. Does not include the President's accrual proposal.

** Less than $500 million.